

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

IN RE: THE NARRAGANSETT ELECTRIC :
COMPANY d/b/a NATIONAL GRID : **DOCKET NO. 5079**
TARIFF ADVICE FILING TO AMEND :
R.I.P.U.C. NG-Gas NO. 101 :

ORDER

On October 30, 2020, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed a tariff advice to amend R.I.P.U.C. NG-Gas No. 101, Schedule A, Section 3.2, the Advanced Gas Technology (AGT) program within its Distribution Adjustment Charge (DAC) tariff. Specifically, the Company requested that the Public Utilities Commission (Commission) allow the purpose of the AGT program to be expanded to fund prudently incurred costs of Commission approved and Division of Public Utilities and Carriers (Division) supported studies on the decarbonization of natural gas.

The AGT program was originally a National Grid Demand-Side Management (DSM) program which was established to promote the development of energy efficient natural gas technologies that encourage the use of natural gas during off-peak periods.¹ On August 1, 2007 in Docket No. 3859, National Grid’s 2008 DAC filing, the Company began referring to what was historically called the DSM factor as the AGT factor to avoid confusion with the filing it made in Docket No. 3790 on December 1, 2006 pursuant to R.I. Gen. Laws § 39-2-1.2.²

In support of the request, the Company submitted the prefiled testimony of Lee Gresham, Lead Analyst for the Gas Utility of the Future team within the Regulatory and Customer Strategy

¹ PUC 2-1 (Jan. 20, 2021).

² R.I. Gen. Laws §39-2-1.2(e) states that “[e]ffective January 1, 2007, and for a period of sixteen (16) years thereafter, each gas distribution company shall include, with the approval of the commission, a charge per dekatherm delivered to fund demand-side management programs....” See Docket No. 3859, Czekanski Test. at 6 (Aug. 1, 2007).

group of the Strategy and Regulation department, to describe and explain why the Company was requesting expansion of the program and why expansion is appropriate. Mr. Gresham noted how, in a recent report published in April 2020, the Division and OER recommended pathways to decarbonization. Mr. Gresham stated that there is a “growing body of evidence in decarbonization pathways analyses, which show that achieving 2050 decarbonization targets is more cost-effective and resilient through tighter integration of electric and gas networks, especially in cold climates.” He expressed that these studies conclude that “low- and zero-carbon fuels (i.e., biogas and hydrogen) that replace traditional natural gas in gas networks can play a meaningful and significant role in decarbonization.”³

Mr. Gresham stated that National Grid is proposing to expand the AGT Program to allow the Company to recover the actual costs it incurs to conduct or in support of Division supported and Commission approved decarbonization studies. He asserted that these studies will allow the Company to provide input into actions that should be taken to advance heating sector reliability and emissions by integrating hydrogen and renewable natural gas into the system. He added that the studies will also aid in distinguishing which actions should be pilot programs verses commercial scale programs. He also noted that National Grid would partner and collaborate with other partner organizations, the market, and stakeholders to explore and develop solutions. Finally, Mr. Gresham stated that National Grid was not proposing a particular study in this docket but was in the process of developing one which it would present to the Commission for review and approval if the Commission approves the proposed tariff changes.⁴

³ Gresham Test. at 1-4 (Oct. 30, 2020).

⁴ *Id.* at 5-10.

In response to data requests issued by the Commission requesting a list and specifics of all studies that it has performed in the United States (U.S.) or the United Kingdom which are directly related to the decarbonization of natural gas with the goal of reducing greenhouse gas emissions and how those studies were funded, National Grid provided a list of numerous studies.⁵ It noted that the “majority of studies referenced were or are funded via base distribution rates.” As a follow-up, the Commission asked National Grid to provide the details of each study including where the U.S. state-regulated gas distribution company made a proposal to its applicable state regulator and where and how the regulator granted cost recovery. Contrary to its prior response, the Company responded that “[n]one of the studies included in the [its] response to Data Request PUC 1-1 were proposed in a National Grid USA gas distribution company base rate proceeding in which cost recovery was specifically approved by regulators as an allowance in the revenue requirement or through a separate recovery mechanism.” (*emphasis added*).⁶

On February 11, 2021, the Commission considered National Grid’s request to amend the tariff to expand the purpose of the AGT Program at an Open Meeting and voted unanimously to deny the request. The Commission observed that the tariff request is essentially asking for Research & Development (R&D) funding outside of a base distribution rate case. It found that with the request, National Grid was sidestepping the general ratemaking rule that disfavors single-issue ratemaking.⁷ There may be instances where the Commission might exercise its discretion to

⁵ PUC 1-1 (Nov. 25, 2020).

⁶ PUC 2-1.

⁷ "Single-issue ratemaking" occurs when a utility's rates are altered on the basis of only one of the numerous factors that are considered when determining the revenue requirements of a regulated utility. This type of ratemaking is prohibited because considering any one item in a revenue formula in isolation risks understating or overstating the revenue requirement. Further, single-issue ratemaking is generally prohibited because it might cause the regulating authority to allow a company to raise rates to cover increased costs in one area without realizing that there were counterbalancing savings in another area. 73B C.J.S. Public Utilities § 21

make an exception to the single-issue ratemaking prohibition. For example, there may be categories of cost-incurrence for important initiatives which have such a high cost in between base distribution rate cases that it is financially impractical for the utility to undertake them without obtaining concurrent cost recovery. However, the Company made no case in its petition that the cost of its contemplated R&D projects would make it financially impractical to undertake without annual dollar-for-dollar cost recovery outside of base distribution rates.⁸

The Commission reasoned that there is no regulatory prohibition preventing the Company from conducting such studies. Commission approval is not required for it to do so. If National Grid believes that the issues arising out of climate change mean that R&D on those issues need to be funded by ratepayers, then the proper regulatory manner in which to proceed is for the Company to conduct the R&D. Then, in its next rate case, the Company should include the R&D expense in the test year and forecast annual R&D for the rate year. If the Company meets its burden in the rate case and establishes that the expenses are reasonable, then the Commission could exercise its discretion to authorize an R&D annual allowance, much like an annual allowance for most of its base distribution business. But the Company should not be requesting a rate mechanism to recover R& D costs in the abstract that allows costs to be recovered on a fully reconciling basis, without supporting the request with a compelling financial reason. Moreover, National Grid's affiliates have been conducting R&D in other jurisdictions without requesting special ratemaking mechanisms to do so and acknowledged that none of the R&D studies in any of its other U.S. jurisdictions were funded through specific rate requests.⁹

⁸ By giving this example, the Commission is not setting a ratemaking standard. This is merely an illustration of circumstances that might give rise to an exception in the exercise of Commission discretion.

⁹ See PUC 1-1, 2-1.

The Commission also noted that it would not approve an expansion of the AGT provision which allows recovery of eligible costs through a rate factor that goes beyond its stated purpose. Here the purpose of the AGT provision, as noted by the Company not only in this docket, but in numerous previous DAC proceedings, is to promote the development of energy efficient natural gas technologies that encourage the use of natural gas during off-peak periods. Repurposing the AGT cost-recovery provision to obtain a new stream of funding for studies yet-to-be developed is not the appropriate way to advance important climate change objectives through the ratemaking process. While the Commission recognizes the need to make the gas system more renewable and is cognizant that the gas sector is one of the most important challenges, it cannot justify expanding the scope of a fully reconciling cost-recovery mechanism that was designed to address other issues (and has limited relevancy today). Further, the request to expand the scope was made in the abstract, with no reference to any particular project that the Company had in mind or any estimates for what R&D study costs might be on an annual basis. . Based on the reasoning set forth above, National Grid's request is denied.¹⁰

Accordingly, it is hereby

(24000) ORDERED:

The Narragansett Electric Company d/b/a National Grid's Request to expand the purpose of the Advanced Gas Technology Program to allow for recovery of prudently incurred costs of studies on the decarbonization of natural gas is denied.

¹⁰ At an Open Meeting on February 18, 2021, the Commission approved National Grid's request for confidential treatment of Attachments PUC 1-1-2 and 1-1-3 filed in its response to the Commission's First of Data Requests.

EFFECTIVE AT WARWICK, RHODE ISLAND ON FEBRUARY 11, 2021 PURSUANT TO AN OPEN MEETING DECISIONS ON FEBRUARY 11, 2021 AND FEBRUARY 18, 2021. WRITTEN ORDER ISSUED FEBRUARY 18, 2021.

PUBLIC UTILITIES COMMISSION



Ronald T. Gerwatowski, Chairperson



Marion S. Gold, Commissioner



Abigail Anthony, Commissioner

NOTICE OF RIGHT TO APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.